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SUBJECT: MCC COMPACT UPDATE

¶1. The Embassy welcomes the November 17-21 visit by Ambassador John Danilovich, Chief Executive Officer for the Millennium Challenge Corporation, and provides the following short update of MCC implementation activities in-country since the July 13 Compact signing in Washington.

¶2. On August 7, the Mozambican Council of Ministers ratified the Compact, as required by the agreement. At the same time, the Council of Ministers approved the creation of MCA Mozambique, a public institution under Mozambican law with distinct legal and administrative autonomy for the implementation of the Compact. On August 21, the Council of Ministers approved a new Water Sector Policy which includes a water resources management strategy, national water policy, and water allocation licensing regulation all key policy reforms included in the Compact. The World Bank is cooperating with the MCC to promote additional reform and investment in the water sector. In addition, the African Development Bank, the European Union, and Japan Bank for International Cooperation have expressed interest in supporting the water sector, based on the Water Policy commitments made by the Government of Mozambique to MCC and the World Bank.

¶3. Following an open and competitive recruitment process, the GRM has selected many of the key staff of the Management Unit of the MCA Mozambique, whose names were formally submitted to MCC for approval. In addition, key line ministries and institutions, such as Ministry of Public Works, Ministry of Agriculture, and the Ministry of Finance, continue to prepare and plan for the implementation of their respective projects and activities.

¶4. MCC and the Ministry of Finance have negotiated a Tax Agreement, defining the tax exemption mechanisms for the Compact, which is expected to be executed by end-November. Furthermore, MCC and the GRM have finalized a Compact Implementation Funding Letter, allowing up to US \$25 million to be disbursed during the next nine months for Compact start-up. On November 2, the Executive Committee of MCA Mozambique held its first meeting in which members approved the first disbursement request to MCC and other key documents and requirements for the implementation of the Compact.

¶5. The Compact enjoys strong support from the top leadership of the Mozambican government, including President Armando Guebuza, and has strong private sector and civil society support as well. Also, the Embassy and MCA Mozambique are meeting regularly with other donors to further leverage the MCC investment. Some donors continue to have questions and concerns about implementation mechanisms and MCC-negotiated tax agreements. Through frequent meetings and informational sessions, these concerns are being addressed. Mozambican public interest and support for the MCC remains high.

